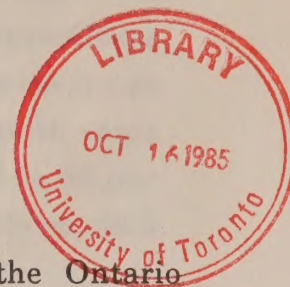




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## CANADIAN HOUSING ALLOWANCES: AN ECONOMIC ANALYSIS

NOT FOR RELEASE BEFORE OCTOBER 10, 1985



TORONTO... A special research report prepared for the Ontario Economic Council unequivocally advocates that Ontario should adopt a housing allowance program.

University of Guelph economics professor Marion Steele indicates that rents would not rise noticeably, and that the beneficiaries would be low-income tenants rather than landlords. Her book, *Canadian Housing Allowances: An Economic Analysis*, recommends that low-income families as well as the elderly should be made eligible for the program since low-income families need assistance more than the low-income elderly do. Professor Steele recommends that the allowances be extended to both owner-occupiers and renters. She believes that Ontario's Property Tax Credit and Property Tax Grant could then be abolished.

Professor Steele provides detailed recommendations on how to vary housing allowances with the size of the family and the proportion of income spent on housing.

This report reflects the views of the author and not necessarily those of the Ontario Economic Council. The Council establishes policy questions to be investigated and commissions research projects, but it does not influence the conclusions or recommendations of authors. The decision to sponsor publication of this study was based on its competence and relevance to public policy and was made with the advice of anonymous referees expert in the area.





**'Varying the contribution rate by household size is highly desirable on equity grounds because the larger the household the more it needs for non-housing expenditure and therefore the lower the proportion of its income it can afford for housing. An attractive set of contribution rates would be 37.5 per cent for single-person households, 30 per cent for two-person households, 25 per cent for three, 22.5 per cent for four, and 20 per cent for five or more.'**

This study provides an extensive review of experiences in other jurisdictions that have actually implemented such housing allowance programs. Special attention is given to the programs in British Columbia, Manitoba, and New Brunswick. Then the author offers a look at how such a program could be implemented in Ontario and the effects it would have.

Professor Steele says the cost of the recommended housing allowance, even with owner-occupiers included, would be far less than the Property Tax Credit and the Property Tax Grant, and these are both much less progressive than the housing allowance. She recommends they be abolished. She estimates the total cost of a housing allowance program for renters, if it had been in effect in 1976, at \$56 million (for 1984, about \$90 million). These estimates assume a participation rate of 70 per cent, which is well above that experienced in other provinces. If confined to the elderly and families, the 1984 cost would be under \$50 million.

**'One way to put this in context is to compare this to payments in 1976 under the Ontario tax credit program. This is a housing allowance program in fact if not in name: a cash grant conditioned on income and on housing expenditure. The transfer cost of this program plus the sales tax credit program for the 1976 tax year was \$209 million for renters.'**

By 1983, the program cost \$170 million, and the Property Tax Grant for owners and renters added \$279 million. These results indicate that a housing allowance program would cost significantly less than the property tax program, Professor Steele says.

The study finds that the impact of a housing allowance on the situation of single-parent families is striking. Over 45 per cent of single-parent renters would be eligible, the highest rate for any household type. Professor Steele describes her proposed housing allowance as highly progressive.

**'For Ontario, 39 per cent of payments go to households with income below half the poverty line; 93 per cent go to those below the poverty line.'**

Professor Steele concludes that a housing allowance does deliver assistance to the neediest and only the neediest. Elderly renters are perhaps the most common target group for low-income housing programs, especially in recent years. Professor Steele discovered in her research that housing for elderly renters is not inferior to that of other groups.

**'They are clearly better off in terms of basic facilities than other low-income households.'**

She also finds that

**'Low-income elderly renters live in adequate, spacious housing, but most of them spend so much for it that their consumption of food and other goods and services apparently is jeopardized. It is important, however, to put this fact in perspective. The frequency of an affordability problem among all low-income households is substantially greater than among low-income elderly renters.'**



Professor Steele finds it somewhat surprising that the poor elderly are such popular program targets. She says **low-income family renters are far more in need of assistance than low-income elderly renters, so that the recent focus on the elderly is perverse.** Also, a cash assistance program is far more justified than an expansion of programs such as public housing, which better the physical housing conditions of the poor. The overwhelming problem of low-income renters is affordability, not bad housing, and it makes sense to direct programs to help the major problem, not the minor problem, she says.

A critically important factor why the elderly poor are not in as bad shape as is generally believed is the Old Age Security and Guaranteed Income Supplement Payments. They set an income floor for virtually all elderly households that is not far below the poverty line. The higher the income, of course, the lower the rent-to-income ratio.

#### HOUSING ALLOWANCE GOALS

*Housing Goals.* A housing allowance may be regarded as an alternative to public housing and other social housing programs as a way of helping low-income households avoid the psychic and monetary costs of a move. It is an instrument to increase security of tenure. If the household's rent jumps, because of the removal of rent controls or for other reasons, the impact is cushioned by the housing allowance's rent subsidy. The household may then be able to afford to stay in its home. If unemployment, sickness, childcare responsibilities, or retirement or death of a spouse cause a drop in income, a housing allowance will help protect the household from the consequences because its payment is geared to income as well as to the size of rent, a major fixed expense.

At another level, a goal of housing allowances is to reduce the pressure for construction of more public housing by reducing waiting lists. A second goal is lessening the inequity between low-income households who are public housing tenants and



those who are not. A third goal at the same level is to reduce the pressure for the continuation and tightening of rent control.

*Income Security Goals.* A major goal for a housing allowance is to reduce poverty by equitably redistributing income. For low-income households paying more than threshold rents, a housing allowance is merely a simple negative income tax. A housing allowance tends to help the neediest because payment to those paying a high price for housing, other things being equal, is greater than its payment to those occupying bargain units. A major finding of this study is that a housing allowance has very little impact on average market prices. This is important because

'Probably the most widespread objection to housing allowances is the possibility that they increase neither the housing consumption nor the real income of the poor but merely increase the wealth of landlords. Housing allowances, it is supposed, may substantially increase the price of housing service. In fact, the evidence indicates that the housing demand response to a housing allowance is very small, and if this is generally true, a housing allowance can have at most only a small impact on the price of housing service, no matter what the supply conditions.'

Professor Steele concludes that the response of the price of housing to housing allowance programs is so small as to be undetectable.

Professor Steele says there is one possible market-price effect of housing allowances that favours an allowance program. Low-income families may become less costly tenants for landlords if the program is in effect. A major cost for landlords who deliver housing service to low-income families is the high turnover associated with fluctuating incomes and the relatively high probability of non-payment of rent. A housing allowance program will tend to reduce these costs.

The evidence from Manitoba and British Columbia suggests that the housing allowance program has had little impact on their social housing programs. Specifically, in Manitoba the waiting list for family

public housing has grown and its vacancy rate has declined. The same is true of public housing for the elderly in British Columbia.

A housing allowance has been proposed by some as an alternative to existing social housing programs. Should these programs be eliminated when a housing allowance is implemented? For public housing, the answer is no, because public housing provides characteristics frequently unavailable to low-income households in the private market, whether subsidized by a housing allowance or not.

Professor Steele says the case is strong for elimination of the private Rent Supplement Program when a housing allowance is implemented.

#### STRATEGIES TO INCREASE PARTICIPATION

Professor Steele expresses concern that many who qualify for housing allowances will fail to apply for them, and she emphasizes the need for appropriate publicity to inform the poor and less educated if the new program is introduced.

'One possibility is repeated simple messages with old age security, family allowance, and unemployment insurance cheques. Another is store front application centres, because difficulties with the application are responsible for much of the non-participation.

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*Canadian Housing Allowances: An Economic Analysis*, 280 pages, price \$10.00 is available at the following outlets:



The Ontario Government Bookstore, 880 Bay Street, Toronto, to those shopping in person. Out-of-town customers may write: Publications Section, Fifth Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8, or telephone 965-6015 (toll-free long distance, 1-800-268-7540; in northwestern Ontario, 0-Zenith 67200). Prepayment is required. Mastercard and VISA are accepted. Cheques or money orders should be made payable to the Treasurer of Ontario.

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